

Hong Kong Monthly

May 2021

OFFICE

Sustained leasing demand buoyed by expansion-seeking tenants

Hong Kong Island

The Grade-A office vacancy rate in the Central CBD did not climb any further in April, remaining at 7.9%, on par with the level in March. However, vacant office space in the non-core business areas continued to rise during the month, with vacancy rates in Wanchai and Causeway Bay growing to 12.4% and 7.5%, respectively. Amid the alarming vacancy rate, most landlords are willing to put more effort into keeping stronger-covenant tenants.

The pandemic has pushed many shoppers to e-commerce, so online platforms have become some of the fastest-growing companies. Some key players in the luxury fashion platforms have been actively looking for larger floor space and to upgrade building specifications to incorporate their back office, show rooms and customer service centres at an affordable rent.

Island East remains an attractive location for MNCs looking for sizable office space. For instance, Swiss bank Julius Baer, a Swiss wealth management group, leased 91,800 sq ft in Two Taikoo Place. We expect Island East to continue to benefit from the decentralisation trend and to maintain a stable vacancy rate and rental level for the rest of the year.

Kowloon

Leasing sentiment in Kowloon remained strong in April, with more tenant enquiries and frequent site inspections. Most of the leasing activity was in Kowloon East. As in the previous month, the average transaction size was 3,000 to 4,000 sq ft, at a unit rent of below HK\$25 per sq ft.

There was sustained leasing demand amid the continuous downtrend in rental levels in Kowloon, as tenants continued to grab expansion opportunities with attractive terms. For instance electronics company Commscope expanded its floor

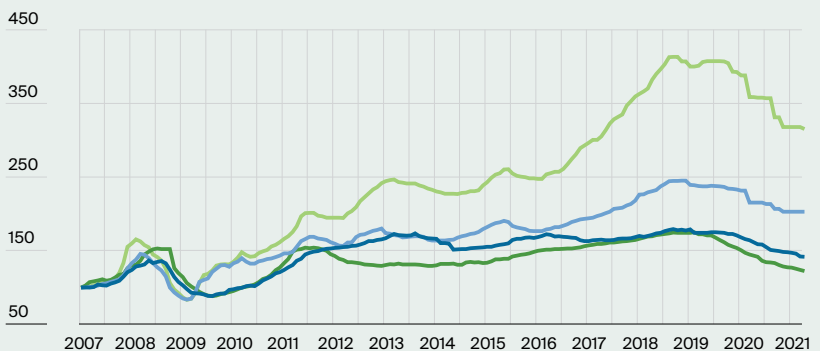
space from 7,000 sq ft to 13,500 sq ft in Millennium City 1, and investment company Up Way China Bullion doubled its office space, renting an additional 10,000 sq ft in Nina Tower.

Rental levels have been largely stable in the past few months, indicating a bottoming-out trend. Taking into account the stabilised unemployment rate and increased work order volume, we expect rents in Kowloon to remain flat in the next few months, followed by a moderate U-shaped recovery in Q3–Q4, with more expansion cases in the market.

Fig 1. Grade-A office rents and prices

2007 = 100

■ Hong Kong Island price index ■ Hong Kong Island rental index
■ Kowloon price index ■ Kowloon rental index



Source: Knight Frank Research

Grade-A office market indicators (April 2021)

| District | Net effective rent | | | Price (Gross) | | |
|-----------------------|--------------------|--------------|--------------|---------------|--------------|--------------|
| | HK\$ psf / mth | Change MoM % | Change YoY % | HK\$ psf | Change MoM % | Change YoY % |
| Premium Central | 131.3 | -1.5 | -14.1 | - | - | - |
| Traditional Central | 101.7 | -0.9 | -14.1 | - | - | - |
| Overall Central | 111.8 | -1.1 | -14.1 | 32,563 | -1.5 | -15.6 |
| Admiralty | 72.3 | 0.0 | -19.4 | 29,001 | -1.7 | -14.5 |
| Sheung Wan | 60.4 | -0.4 | -19.6 | 27,647 | 0.0 | -10.2 |
| Wan Chai | 56.9 | -1.3 | -15.9 | 24,748 | 0.0 | -8.2 |
| Causeway Bay | 60.5 | -3.1 | -18.2 | 21,699 | 0.0 | -8.4 |
| North Point | 41.9 | -3.4 | -10.4 | - | - | - |
| Quarry Bay | 48.0 | -2.3 | -5.9 | - | - | - |
| Tsim Sha Tsui | 55.9 | -0.3 | -14.6 | 15,209 | 0.0 | -7.0 |
| Cheung Sha Wan | 27.7 | -0.9 | -11.0 | - | - | - |
| Hung Hom | 40.5 | -2.1 | -7.9 | - | - | - |
| Kowloon East | 27.0 | -0.3 | -9.8 | 11,817 | 0.0 | -3.6 |
| Mong Kok / Yau Ma Tei | 51.3 | 0.0 | -9.5 | - | - | - |

Source: Knight Frank Research
Note: Rents and prices are subject to revision.

RESIDENTIAL

Bullish sentiment prevails as home buyers snap up new projects

Supported by pent-up end-user demand, purchase momentum persisted in April. According to the Land Registry, the residential market recorded 7,325 transactions during the month, for a total consideration of HK\$ 71.6 billion. Transaction volume in the secondary market continued to reach new heights, rising 6.2% MoM to 6,258, the highest in the past 102 months. The latest official statistics show that average residential prices edged up by 0.8% MoM in March.

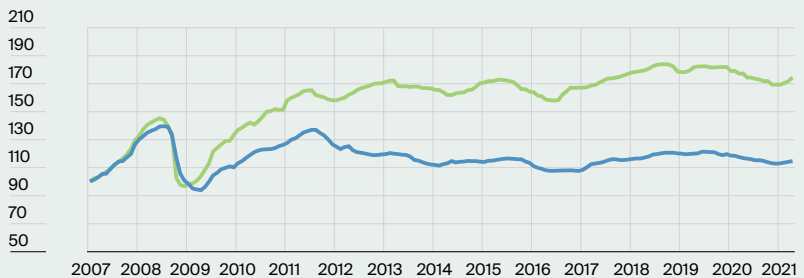
In the primary market, newly launched projects drew interest, indicated by the massive oversubscription of South Land, atop the Wong Chuk Hang MTR Station, by Road King Infrastructure Limited, showing strong purchase sentiment. All units in the first two batches were sold. Seven units in the second batch were sold to a single group buyer, for about HK\$200 million.

The luxury market remained resilient despite ongoing concern about the local economic recovery. A major transaction was closed for a 5,630-sq-ft house at 90 Repulse Bay Road in Island South, which was sold for HK\$467.3 million or HK\$83,002 per sq ft. The last unit

Fig 2. Luxury residential rents and prices

2007 = 100

Price index Rental index

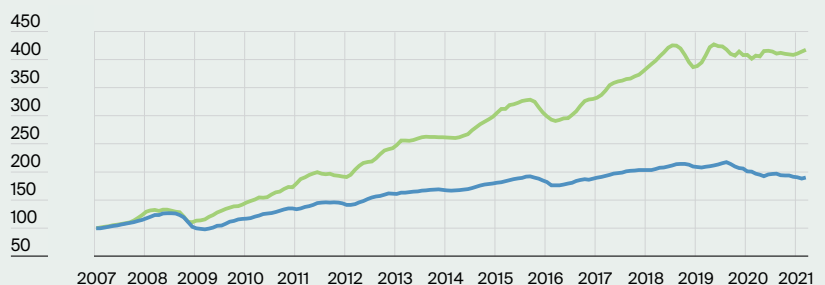


Source: Knight Frank Research

Fig 3. Mass residential rents and prices

2007 = 100

Price index Rental index



Source: Knight Frank Research / Rating and Valuation Department

available at The Masterpiece in Tsim Sha Tsui was sold for HK\$210 million or HK\$70,731 per sq ft.

On the leasing front, demand was still driven by local moves amid travel

restrictions, and landlords remained flexible to attract potential tenants.

Looking forward, given the stabilisation of the COVID-19 situation in Hong Kong, along with the rising vaccination rate

in the city, potential home buyers are expected to be optimistic about the market outlook, leading to higher transaction volume, in particular in the primary market.

Selected residential sales transactions (April 2021)

| District | Building | Tower / floor / unit | Saleable area (sq ft) | Price (HK\$ million) | Price (HK\$ per sq ft) |
|--------------------|------------------------|-------------------------------|-----------------------|----------------------|------------------------|
| Mid-Levels Central | 21 Borrett Road | High floor / unit 3 | 2,731 | 344.1 | 126,000 |
| Tai Tam | 45 Tai Tam Road | House | 4,775 | 428 | 89,634 |
| Island South | 8 Deep Water Bay Drive | Tower 2 / mid floor / unit C | 4,214 | 375 | 89,000 |
| Island South | 90 Repulse Bay Road | House | 5,630 | 467.3 | 83,000 |
| Mid-Levels Central | Estoril Court | Block 3 / high floor / unit E | 2,945 | 110 | 37,351 |

Source: Knight Frank Research
Note: All transactions are subject to confirmation.

Selected residential lease transactions (April 2021)

| District | Building | Tower / floor / unit | Lettable area (sq ft) | Monthly rent (HK\$) | Monthly rent (HK\$ per sq ft) |
|--------------|---------------------|----------------------|-----------------------|---------------------|-------------------------------|
| Island South | The Lily | Tower 2 / mid floor | 2,581 | 140,000 | 54 |
| Island South | Carmel Hill | House | 1,957 | 98,000 | 50 |
| Shouson Hill | Las Pinadas | House | 2,917 | 128,000 | 44 |
| Island South | Grosse Pointe Villa | Block C / low floor | 2,438 | 105,000 | 43 |
| Island South | Repulse Bay Tower | High floor / unit G | 2,578 | 100,500 | 39 |

Source: Knight Frank Research
Note: All transactions are subject to confirmation.

RETAIL

Improved retail performance but still far below pre-pandemic levels

Hong Kong's retail sales rebounded for the second month in March, supported by improved local consumption sentiment, but the retail market is still challenging, given the continuing economic uncertainty and strict travel restrictions. According to the Census and Statistics Department (CSD), total retail sales value rose by 20.1%

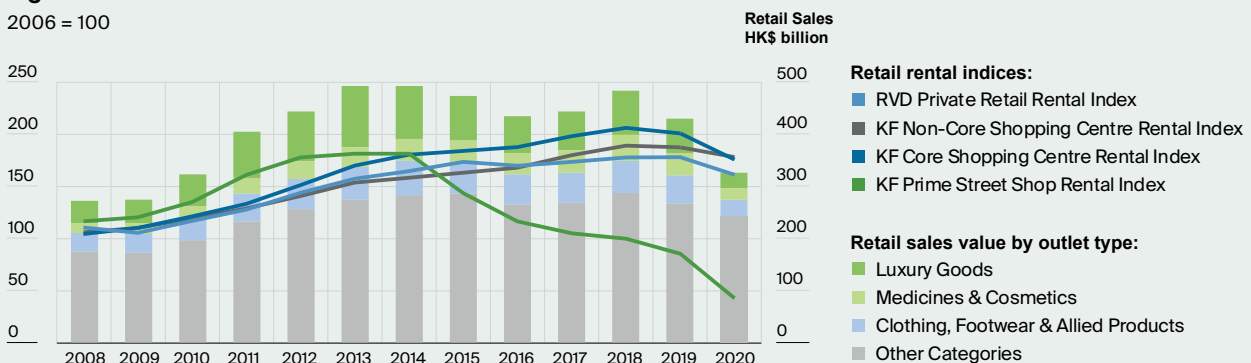
YoY to HK\$27.6 billion in March, slower than the 30.0% YoY increase in February. Online sales continued to constitute a significant portion of retail sales, totalling HK\$2.1 billion in March, representing 7.7% of total retail sales value for the month. This was also 43.3% higher than in the same period last year, implying

that consumers are increasingly opting for online purchases.

Thanks to the gradual relaxation of social distancing restrictions, the F&B sector has seen an improvement in business. According to the CSD, restaurant receipts totalled HK\$7.4 billion in March, rising

Fig 4. Retail rents and sales

2006 = 100



Source: Knight Frank Research / Rating and Valuation Department / Census and Statistics Department

by 16.4% compared to HK\$6.4 billion in February. But for the first three months of 2021, the total value of restaurant receipts was still 8.8% lower than in the same period last year before the industry was affected by the pandemic, totalling only HK\$19.7 billion.

Recently, Hang Seng Bank took over Adidas-vacated space in Queen's Road Central at a deep discount. The bank will rent a total of 6,500 sq ft for two floors for HK\$1.2 million per month. This reflected that the reshuffling of tenants in prime

shopping streets is still ongoing. Retailers remained hesitant towards expansion though services trade such as banks who used to be expelled from core areas in the last 15 years are taking the opportunity now.

The declining number of coronavirus cases and the expansion of the vaccine programme are expected to lift consumption sentiment. But with the Hong Kong-Singapore travel bubble put on hold for the second time, the tourism industry is expected to revive only when the pandemic is completely over.

Given the challenges ahead, landlords are still generally cautious about the market outlook. However, because of a partial recovery in depressed retail sales, we think rental concessions are likely to taper off in the next few months. Landlords of prime shopping malls and prime street shops may also explore new leasing strategies to diversify the tenant mix, with the introduction of new elements targeting local consumers, such as pop-ups, culture and art, and experienced-based retail.

Retail sales by outlet type (March 2021)

| Outlet | Value (HK\$ billion) | Share of total % | Change MoM % | Change QoQ % | Change YoY % |
|-------------------------------------------------------------|----------------------|------------------|--------------|--------------|--------------|
| Jewellery, watches and clocks, and valuable gifts | 3.0 | 10.8 | -10.2 | -3.2 | 81.0 |
| Clothing, footwear and allied products | 3.2 | 11.4 | -1.7 | -8.3 | 75.5 |
| Department stores | 2.5 | 8.9 | -6.4 | -24.2 | 2.2 |
| Fuel | 0.9 | 3.3 | 18.1 | 14.6 | 18.7 |
| Food, alcoholic drinks and tobacco (excluding supermarkets) | 2.6 | 9.6 | -28.7 | -19.1 | -1.8 |
| Consumer durable goods | 5.2 | 19.0 | -1.0 | -20.3 | 33.4 |
| Supermarkets | 4.3 | 15.5 | -4.7 | -11.0 | -16.1 |
| Others | 5.9 | 21.5 | -3.0 | -3.9 | 27.8 |
| All retail outlets | 27.6 | 100.0 | -6.5 | -12.0 | 20.1 |

Source: Knight Frank Research / Census and Statistics Department

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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